

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 7098**

**BILL NUMBER:** SB 389

**NOTE PREPARED:** Jan 6, 2005

**BILL AMENDED:**

**SUBJECT:** County Option Farmstead Credit.

**FIRST AUTHOR:** Sen. Weatherwax

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill provides a County Option Farmstead Credit against a taxpayer's property tax liability attributable to a farmstead to offset the effect of a deduction for inventory. The bill provides that the credit is funded by County Economic Development Income Tax (CEDIT) revenue.

**Effective Date:** Upon passage; January 1, 2006.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) certifies county local option income taxes currently. It is likely that the DOR and Budget Agency would require additional administrative time to implement the provisions of the bill. The Department's current resources should be sufficient to implement the provisions of the bill.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** This bill would allow counties to optionally provide a farmstead credit to mitigate the tax shifts on agricultural real property caused by the elimination of inventory AV. The bill would not authorize any further increases over the additional 0.25% rate allowed under current law. CEDIT-funded homestead credits would be paid first and then to the extent that funding is available, farmstead credits could be paid.

*Background:* Under current law, each county was given the option to adopt an ordinance providing a 100%

inventory deduction for taxes paid in CY 2004, CY 2005, and CY 2006. The deduction becomes effective in all counties beginning with taxes paid in 2007. Counties were also given the option of using CEDIT proceeds to pay for additional homestead credits in the county in order to mitigate any shift of the tax burden from inventory property to homestead property. Counties may exercise this option in any year. The normal CEDIT rate cap and both the COIT/CEDIT and CAGIT/CEDIT combined rate caps may be exceeded by 0.25% for this purpose.

Thirty-eight counties have already adopted the county option inventory deduction, 14 for 2004 taxes, 16 for 2005 taxes, and 8 for 2006. Twenty-three counties have already adopted the county option CEDIT-funded homestead credits, 13 for 2004 taxes, 8 for 2005 taxes, and 2 for 2006.

This bill would allow counties to optionally provide a farmstead credit to mitigate the tax shifts on agricultural real property caused by the elimination of inventory AV. A county adopting the farmstead credit would have to specify in its ordinance whether the credits will be uniformly applied throughout the county or whether the credits would be allocated by taxing district on the basis of inventory AV by district.

An analysis of inventory shifts, to homesteads and farmsteads was completed for 65 counties for which sufficient data was available. This analysis estimated these shifts by examining county total assessments and levies and county average tax rates, PTRC percentages, and homestead credit percentages. The data is not sufficient at this time to drill down on the assessed values for these categories by taxing district. Once the district level assessments have been identified, these estimates could change. However, a major change is not expected.

The 65 counties examined represent about 71% of the total AV in the state. For those counties, the average CEDIT rate needed to fund the homestead credit (for inventory AV loss mitigation) under current law is estimated at 0.096%, just under one-tenth of one percent. The average CEDIT rate needed to fund the farmstead credit under the bill is estimated at 0.018%. The average CEDIT rate needed to fund both credits is estimated at 0.113%.

The minimum CEDIT rate for farmstead credits among the 65 counties is estimated at 0.01% and the maximum, 0.11%. Total farmstead credits for the 65 counties if they all adopt is estimated at \$12.1 M. By scaling that amount to the entire state, the total cost of the credit can be estimated at \$17.2. Two counties would reach their CEDIT cap before fully funding the farmstead. They both would have required an estimated total CEDIT rate of 0.27%, just slightly more than the 0.25% limit, to provide full funding.

These credits would reduce net farmstead property taxes while total local levies would not be affected.

**State Agencies Affected:** Department of State Revenue; Department of Local Government Finance.

**Local Agencies Affected:** County auditors; County income tax councils; County fiscal bodies.

**Information Sources:** Local Government Database; County auditor Form 15; County assessor parcel-level assessment data.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859.